

Worker's Compensation Board of Indiana
Second Injury Fund

Calculation of Funding Level
January 7, 2005



WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

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Crowe Chizek and Company LLC
Member Horwath International

10 West Market Street, Suite 2000
Indianapolis, Indiana 46204-2975
Tel 317.632.1100
Fax 317.635.6127
www.crowechizek.com

January 6, 2005

Workers Compensation Board of Indiana
402 W. Washington Street, Room W196
Indianapolis, IN 46204

Dear Board Members:

In accordance with our engagement by the Worker's Compensation Board of Indiana (the "Board") in connection with the funding of the Second Injury Fund (the "Fund") we have prepared a report entitled Second Injury Fund-Calculation of Funding Level (the "Report") which we respectfully submit herewith subject to comments in this letter of transmittal and the Report as to the scope of our inquiry and the conclusions reported.

The Fund was created by the State of Indiana to provide compensation to employees who have been permanently and totally disabled due to a compensable injury and have also exhausted the statutory maximum of 500 weeks of compensation. In addition, the Fund also provides benefits to persons who have suffered an amputation due to a compensable injury and need to repair or replace the prosthetic device.

The Fund collects revenue based upon an assessment of all compensation paid to injured employees by insurance carriers and self-insured employers. The Board is authorized to conduct the assessment, if on or before October 1, the balance in the Fund is less than \$1,000,000. The assessment may not exceed 2.5%.

The purpose of our study was to calculate the assessment necessary to meet the level of historical expenditures within the Fund as required by Indiana Code 22-3-3-13 (d). Our calculation was based upon information provided to us by the Board. Our calculation shows that an assessment of 1.8675% is necessary and is based on the previous year's expenditures. Because current years expenditures rarely equal historical expenditures, the assessment of 1.8675% may or may not be sufficient to fund future expenditures (See exhibits A and B). Indiana Code 22-3-3-13 allows the Board to approve a rate of up to .25% above the amount recommended by this study.

This Report is issued solely for your information and assistance with the calculation of the required assessment for the Second Injury Fund. In the course of preparing this Report, we have made certain assumptions, which may vary from the actual results because events and circumstances frequently do not occur as expected and such variances may be material. Our Report is issued as of the date set forth herein and we have no responsibility to update this Report for events which may occur after the date of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Christopher R. Johnston".

Cristopher R. Johnston

WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

Historical Second Injury Fund Expenditures

<u>Year</u>	<u>Expenditures</u>	<u>Percentage Change</u>
88-89	\$ 506,406	N/A
89-90	614,346	21.31%
90-91	619,007	0.76%
91-92	767,536	23.99%
92-93	817,711	6.54%
93-94	914,635	11.85%
94-95	958,010	4.74%
95-96	1,226,625	28.04%
96-97	1,445,551	17.85%
97-98	1,719,652	18.96%
98-99	2,246,421	30.63%
99-00	2,327,755	3.62%
2001*	2,646,699	13.70%
2002	2,765,475	4.49%
2003	2,898,017	4.79%
2004	3,051,575	5.30%
Average Percentage Increase		16.38%

*Note: Prior to calendar year 2001 historical expenditures were presented on a state fiscal year basis.

WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

Historical Second Injury Fund Revenues

<u>Year</u>	<u>Revenues</u>	<u>Percentage Change</u>
88-89(2)	\$ 1,085,931	N/A
89-90(1)	5,007	N/A
90-91(2)	1,546,156	N/A
91-92(1)	8,892	N/A
92-93	1,547,344	N/A
93-94(1)	21,058	N/A
94-95(2)	1,608,576	N/A
95-96(2)	1,365,303	-15.12%
96-97(2)	1,338,387	-1.97%
97-98(2)	1,353,732	1.15%
98-99(3)	2,782,098	105.51%
99-00(4)	2,200,524	-20.90%
2001(4)	2,083,172	-5.33%
2002(5)	2,971,879	42.66%
2003(6)	2,721,725	-8.42%
2004(6)	2,956,263	8.62%
Average Percentage Increase		17.70%

- Notes:
- (1) No assessment imposed
 - (2) Revenues based on 1% assessment
 - (3) Two assessments of 1% each
 - (4) Revenues based on 1.5% assessment
 - (5) Revenues based on 2.09% assessment
 - (6) Revenues based on 1.89% assessment

WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

Required Funding and Assessment Calculation

Recommended Assessment

Estimated Fund Balance January 1, 2005 (1)	\$	148,628
Estimated Expenditures through January 1, 2006 (2)		3,056,575
Estimated Revenues from 1.8675% Assessment (3)		<u>2,917,947</u>
Estimated Balance January 1, 2006	\$	<u><u>10,000</u></u>

Note: (1) Included in the Estimated Fund Balance is the fund's cash balance as of December 22, 2004, less the pending prosthetic payments of \$15,848.75. Also included in the cash balance is the amount due to the Supplemental Administrative Fund (SAF).

(2) Included in the Estimated Expenditures are the following line items:

2004 Annual Permanent Total Disability PTD *	\$	2,896,016
2004 Annual Prosthetics *		155,559
Accounting Fees *		<u>5,000</u>
		<u><u>\$ 3,056,575</u></u>

* Based on 2004 actual

(3) The assessment rate is based on 1) estimated 2005 expenditures 2) an estimated ending fund balance of \$10,000 3) the assumption that the repayment of \$138,000 to the SAF will not be made in 2005 and 4) applied to the estimated total worker's compensation paid for 2004.